



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
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June 3, 2003

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**RENEWAL OF COUNTY FINE ARTS INSURANCE POLICY
(3 VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Authorized the purchase of commercial fine arts insurance through Aon Risk Services, Inc. of Southern California (Aon) at an initial premium cost of \$336,679.69 including broker commission, subject to anniversary renewal adjustments, as may result from additions and deletions of objects from coverage or substantial changes in values, or insurance market conditions, for the term indicated in the attached Broker Services Agreement.
2. Approve participation by the Los Angeles County Museum of Natural History Foundation and the Museum Associates in the County's commercial insurance policy.
3. Approve and instruct the Chairman to execute the attached three-year Broker Services Agreement with Aon, which County Counsel has approved as to form, which includes a provision for two, one-year term extensions at County's option.
4. Instruct the Auditor-Controller to make payments for insurance premiums, adjustments, deductible amounts, related loss expenditures and services as invoiced and validated by the Chief Administrative Officer.

PURPOSE OF RECOMMENDED ACTION

In June 2000, the Board approved the purchase of commercial Fine Arts Insurance to provide protection against financial loss of County-owned objects, and objects on loan or on exhibition to Museum of Art and Natural History Museum (the Museums) facilities (including the George C. Page Museum and the William S. Hart Ranch facilities). The estimated values of the collections and items on loan are estimated at over \$2.7 billion. The insurance provides financial protection against loss due to fire, flood, earthquake, explosion, or similar perils. The existing policy expires June 30, 2003.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The purchase of this commercial insurance and execution of the broker services agreement is consistent with the County's Strategic Plan Goal of Fiscal Responsibility. This recommended program will assist the County in effectively managing its resources by providing coverage for damage or loss of County owned and loaned objects in the County's care.

JUSTIFICATION

This coverage assists the Museums in protecting thousands of County-owned objects of significant cultural and financial value. Loan agreements with private collectors and other institutions are conditioned on the County's acceptance of financial responsibility for loss or damage for these objects, which are exhibited or housed in a limited number of facilities and are subject to accidental loss. For these reasons, while self-insurance for County-owned, and some loaned items, is permitted, it is not recommended due to the substantial value of the objects at risk. The cost of commercial insurance is modest in comparison to the potential financial loss which could result from the destruction of or damage to collection and loaned objects. The recommended insurance will provide:

"All risk" coverage limits of \$300 million per occurrence for physical loss or damage to objects at Museum locations, excluding loss due to terrorism, and \$100 million per occurrence for collection objects while in transit.

Earthquake limits of \$300 million per occurrence for any loss at County locations.

A \$20,000 deductible will apply to loss of County-owned objects, with no deductible applicable to loaned items.

Legal liability coverage limits of \$300 million to protect and defend the Museums against allegations of liability for loss to loaned items in situations in which the Museums were not requested to insure by the lender.

The new program includes limited terrorism coverage for objects while in domestic and international transit. A quotation for additional terrorism insurance was obtained, however, due to its high cost, significant coverage limitations and budget constraints, the Museums elected not to purchase it at this time. With the exception of limited terrorism exclusion, coverage limits are equal to or greater than those in the expiring policy; all other policy terms and conditions remain unchanged.

The broker services agreement requires Aon to provide experienced and knowledgeable personnel to administer the insuring policies, assist with any claims to assure the County is fully reimbursed for cost covered under this insurance program, and affirm that the insurance continues to be provided by reputable and financially sound insurers at a cost effective premium.

The Museums concur with the renewal of this insurance coverage.

FISCAL IMPACT

The new first year annual premium of \$336,679.69 represents an increase of approximately 37% over the expiring annual premium of \$246,376. Similar to the County's recent property and aviation insurance renewals, coverage also will be subject to an exclusion for loss due to terrorist events. A quote for terrorism coverage was obtained; however, due to the cost of the coverage and current budgetary constraints, the Museums elected not to purchase terrorism insurance at this time.

These insurance renewal terms reflect the hardening of the commercial insurance market which began in 2000-01. Property insurance premiums particularly have continued to rise since the 9/11 disaster, as insurers seek to build reserves after incurring record losses; insurers also are implementing coverage restrictions (notably terrorism exclusions) and limiting the amount of the coverage they will write in an effort to adequately reserve and price catastrophic coverage for terrorism and earthquake. Premium in subsequent policy years will be subject to anniversary adjustments as may result from addition or deletion of objects from coverage, and changes in values and/or insurance market conditions.

For the renewal of this program, we have obtained agreement from the insurance companies that they will bind the County's coverage upon your Board's approval of this program. Binding on your approval date will guarantee the quoted premium and coverage limits, even in the event of a major disaster or loss occurring before the policy becomes effective on July 1, 2003.

FINANCING

Funding is included in the proposed FY 2003-04 Insurance Budget. Costs will be charged to the respective budget units of the Museum of Art and Natural History Museum. Funds to pay for future policy premiums will be subject to appropriation by your Board.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Under the terms of its loan agreements with private collectors and certain other institutions, the County is held financially responsible for loss or damage to loaned objects. Self-insurance for loaned items and for exhibitions is permitted, but not recommended, due to the significant financial value of the objects at risk.

CONTRACTING PROCESS

A competitive Request for Qualifications and Conceptual Proposals (RFQ) was issued on January 13, 2003 to more than 50 insurance brokerage firms, including those well known in the Museum and fine arts, as well as insurance, communities. Notice of the RFQ also was published in the Los Angeles Times and listed on the "Doing Business with the County" contracting website.

The RFQ criteria were established by CAO and Museum staff and designed to promote selection of a broker with exceptional experience and skill in the placement of fine arts coverage for major Museum clients. The independent risk management consulting firm of Warren, McVeigh and Griffin (consultant) also assisted in the RFQ development. The consultant has no ties to or financial interests in insurance brokerage firms or insurance companies; based on their review, they concurred with the RFQ criteria and the renewal approach developed by the County.

Responses were received from five brokers; each proposal included required and specific information concerning their fine arts insurance experience, organizational capabilities, the insurers they would utilize, and overall ability to meet the Museums' needs. Proposals were evaluated and scored by an Evaluation Committee (Committee) consisting of representatives from the Museums and a member of the Los Angeles County Risk Management Advisory Committee. The three highest rated proposers were selected to give oral presentations explaining the benefits of their proposals and any innovations which could maintain or improve the effectiveness of the County's current program.

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The CAO and consultant, after completing a comparative analysis of all proposals to assist the Committee's evaluation, and considering current "hard" market conditions, recommended the Committee select a single broker to negotiate the Museums' coverage with insurers. This was recommended to avoid inflation of premium costs arising from competing brokers approaching the limited number of insurers who write fine arts coverage (limited market capacity), and due to the limited capacity of earthquake coverage limits in the present market. The Committee agreed with this approach, and unanimously selected Aon as the broker best equipped to negotiate and place the comprehensive coverage needed by the Museums at an economical cost. Both the CAO and consultant concur with the Committee's selection.

Aon has complied with County contracting requirements including Child Support Compliance, Jury Service and County's WebVen registration.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

The Museum of Art and the Museum of Natural History provide the community with a wide variety of cultural, educational and research opportunities. Procurement of commercial insurance is recommended to protect their collections from accidental loss, and enable maintenance of existing long term loan agreements with other institutions and private collectors, so that the County can attract future exhibitions from other museums, institutions and private collectors who require insurance before they will permit display of their collections at a County facility.

Respectfully submitted,

DAVID E. JANSSEN
Chief Administrative Officer

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Attachment

c: County Counsel
Auditor-Controller
Museum of Art
Museum of Natural History